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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
Room TW-A325, The Portals
445 Twelfth Street, S. W.
Washington, DC 20554

RE: In the Matter of Applications for Consent to the Transfer of Control of Licenses and Section 214 Authorizations from Ameritech Corporation, Transferor, To SBC Communications, Inc., Transferee, (CC Docket No. 98-141)

Dear Ms. Dortch:

Pursuant to Appendix C (Separate Affiliate Requirements) regarding SBC Communications Inc.'s (SBC) compliance with the SBC/Ameritech Merger Conditions, SBC submits herein the report of its independent auditor, Ernst & Young LLP (EY). EY reports on the procedures agreed to by management of SBC and the Federal Communications Commission (FCC) covering the period January 1, 2002 through December 31, 2002.

Once SBC has had an opportunity to thoroughly conduct a review of this report and the auditor's work papers, SBC will be prepared to respond to or otherwise address any issues contained in them.

Sincerely,

A handwritten signature in dark ink, appearing to read "Nelle A. Thomas", written in a cursive style.

Attachments

cc: Mr. William Davenport
Mr. Hugh Boyle
Mr. Peter Young
Mr. Robert King

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SBC Communications Inc.

Report of Independent Accountants on Applying Agreed-Upon Procedures

August 29, 2003

Report of Independent Accountants on Applying Agreed-Upon Procedures

To the Management of SBC Communications Inc.

We have performed the procedures enumerated in Appendix A, which were agreed to by management of SBC Communications Inc. ("SBC") and the Federal Communications Commission ("FCC"), solely to assist these specified parties in evaluating management's assertion that SBC complied with the requirements set forth in Paragraph 13¹ of Section I of Appendix C of the FCC's Order approving the SBC/Ameritech Merger, CC Docket No. 98-141, released October 8, 1999, as amended by the Second Memorandum Opinion and Order, FCC 00-336, released September 8, 2000, allowing SBC's Incumbent Local Exchange Carriers ("ILECs") to own certain equipment used to provide Advanced Services throughout SBC's service area, ("Paragraph 13 Requirements") during the period from January 1, 2002 to December 31, 2002 ("the Engagement Period"). This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described in Appendix A either for the purpose for which this report has been requested or for any other purpose.

The Users agreed that Southwestern Bell Communications Services, Inc. ("SBCS") is included within the scope of these agreed-upon procedures. SBCS, which primarily provided interLATA telecommunications services in the states of Arkansas, California, Kansas, Missouri, Oklahoma and Texas, also provided Advanced Services during the Engagement Period. SBC and the FCC have agreed that no specific procedures were to

¹ Paragraph 13 of the Merger Conditions states that if the provisions of Paragraph 12 sunset, then SBC shall be required to comply with the provisions listed in Paragraph 13 until 48 months after the Merger Closing Date. The Users agree that the provisions of Paragraph 12 sunset on January 8, 2002.

The Company has continued to provide Advanced Services from structurally separate affiliates for the period January 9, 2002 through December 31, 2002 and the Company asserts that it therefore complied with the continuing non-discrimination obligations contemplated by Paragraph 13. The Users agree that the standards specified in Paragraph 13 of the Merger Conditions are applicable to SBC for the 2002 Engagement Period. The Users also note that the period January 1, 2002 through January 8, 2002, in which the Merger Conditions established by Paragraphs 1 through 12 of Condition 1 were in effect, will not be subject to audit as specified in Paragraph 67 (... "no report shall be due if that report would cover a portion of a calendar year that is less than 60 days."). Notwithstanding Paragraph 67, the Users agree that the Engagement Period shall be January 1, 2002 through December 31, 2002.

To the Management of SBC Communications Inc.

be performed for SBCS other than the execution of management representation letters; therefore, no procedures relating to SBCS are included in this report.

The procedures performed for the Engagement Period and the results obtained are documented in Appendix A. These procedures and the results are not intended to be an interpretation of any legal or regulatory rules, regulations or requirements.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on SBC's compliance with the Paragraph 13 Requirements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of SBC and the FCC and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Ernst & Young LLP

August 29, 2003

APPENDIX A

Results of Agreed-Upon Procedures

The definitions of the following terms are documented in Appendix B: Advanced Services, Advanced Services affiliate(s), Affiliate, Ameritech, Engagement Period, ILECs, Merger Closing Date, Merger Conditions, Obtain and Users.

1. Documented, as follows, the procedures used by the ILECs and the Corporate Compliance Officer to identify, track, respond and take corrective action to competitors' complaints relating to alleged noncompliance with the Advanced Services provisions of the Merger Conditions.

SBC represented that the following procedures were used by the ILECs and the Corporate Compliance Officer to identify, track and respond to complaints relating to alleged noncompliance with the Advanced Services provisions of the Merger Conditions during the Engagement Period. The SBC Compliance Officer directed each business unit officer responsible for compliance with the Merger Conditions to refer any complaints or inquiries regarding compliance with the Merger Conditions to the Executive Director-FCC Merger Compliance. The Executive Director-FCC Merger Compliance's responsibilities were to require that a listing of all merger-related complaints be maintained, that all complaints be acknowledged and investigated with appropriate input from Legal and the affected business unit and that the resolution be documented. If complaints were found to be related to the Merger Conditions, the Executive Director-FCC Merger Compliance reported the complaint to the Corporate Compliance Officer.

Obtained from the ILECs and the Corporate Compliance Officer a list of all FCC formal complaints, as defined in 47 CFR 1.720; FCC informal complaints, as defined in 47 CFR 1.716; and any written complaints made to a state regulatory commission from competitors filed during the Engagement Period and all new complaints filed up to August 1, 2003 involving alleged noncompliance with the Paragraph 13 Requirements, including complaints submitted by competitors related to the provision or procurement of goods, services, facilities and information, or in connection with the establishment of standards. Noted one complaint open as of the beginning of the Engagement Period. SBC considers the one complaint to have been resolved, and no other complaints were filed during the Engagement Period.

- Allegations of discriminatory processing of orders for, and provisioning of, unbundled network elements ("UNEs") and discriminatory resolution of network problems (*one complaint was open at beginning of Engagement Period and was closed during the Engagement Period; no additional complaints received during the Engagement Period*).

➤ In a letter dated November 8, 2000, EarthLink filed a complaint against SBC with the FCC. The complaint alleged that SBC was provisioning Digital Subscriber Line ("DSL") service to favor unlawfully its affiliated and/or preferred Internet service providers ("ISPs"). EarthLink claimed that it had to wait longer than SBC's affiliates for provisioning of DSL orders and that SBC was engaging in anticompetitive, discriminatory and unreasonable marketing practices. SBC replied to the FCC on December 13, 2000 rebutting EarthLink's allegations. Discussions were held with SBC, EarthLink and the FCC in February and March 2001. On March 29, 2001 SBC responded to EarthLink's allegations in a letter to the FCC. The FCC denied EarthLink's request in July 2001. On August 7, 2001, EarthLink filed a formal complaint making the same allegations as in its November 8, 2000 letter. On November 30, 2001, the FCC ordered SBC to file a factual analysis. SBC filed its factual analysis on December 21, 2001. After a status conference call held on February 1, 2002, the FCC requested SBC and EarthLink file briefings. Both parties filed briefings around February 22, 2002. The parties withdrew the complaint jointly and the FCC issued a statement officially closing the complaint on December 24, 2002.

- Allegations of discriminatory application of the Advanced Services Operations Support Systems ("OSS") discount provisions of Paragraph 18 of the Merger Conditions (*no complaints received*).
- Allegations of discriminatory application of the local loop information provisions of Paragraphs 19 and 20 of the Merger Conditions (*no complaints received*).
- Allegations of discriminatory availability of the enhanced OSS interfaces for provisioning Advanced Services in Paragraph 15 of the Merger Conditions (*no complaints received*).

2. Documented that SBC filed notice with the FCC on October 24, 2001 that the Advanced Services OSS requirements of Condition III, Paragraph 15 had been achieved, resulting in sunset of the Advanced Services OSS discount provisions of Condition III, Paragraph 18 in the 13-state SBC operating area, with the exception of Connecticut.

For Connecticut, documented that SBC filed notice with the FCC on September 13, 2002 that the Advanced Services OSS requirements of Condition III, Paragraph 15 had been achieved, resulting in sunset of the Advanced Services OSS discount provisions of Condition III, Paragraph 18.

3. Obtained and inspected the SBC corporate organizational charts as of December 31, 2002 which included the organizational charts of the ILECs and the Advanced Services affiliates and confirmed with legal and operational representatives of the ILECs and Advanced Services affiliates the legal, reporting and operational corporate structure of the Advanced Services affiliates. Based on inspection of the organizational charts and confirmation with legal representatives, noted that the Advanced Services affiliates were independent from the ILECs.

Based on the review of documentation obtained above, noted that during the Engagement Period there were no changes in the ownership percentages of the Advanced Services affiliates. Noted that as of the end of the Engagement Period, SBC Advanced Solutions, Inc. ("ASI") was 92.52% owned directly by SBC Communications Inc., 6.72% owned by Southern New England Telecommunications Corporation and 0.76% owned by Pacific Telesis Group. Southern New England Telecommunications Corporation and Pacific Telesis Group were both 100% owned subsidiaries of SBC Communications Inc. ASI organizationally reported to SBC Communications Inc.

Also noted that as of the end of the Engagement Period, Ameritech Advanced Data Services of Indiana, Inc., Ameritech Advanced Data Services of Illinois, Inc., Ameritech Advanced Data Services of Ohio, Inc., Ameritech Advanced Data Services of Michigan, Inc. and Ameritech Advanced Data Services of Wisconsin Inc. (collectively, "AADS") were 100% owned by Ameritech Corporation, which in turn was 100% owned by SBC Communications Inc. Management of AADS reported directly to the president of ASI.

4. Inquired of SBC management regarding the interfaces, processes and procedures used by Advanced Services affiliates, noting that ASI and AADS used the same interfaces that the ILECs made available to other CLECs for access to the ILECs' Operational Support Systems ("OSS") for pre-ordering, ordering, provisioning and maintenance and repair functions of Advanced Services. Noted that descriptions of the OSS made available to the CLECs can be found on the Internet on the SBC CLEC online site. SBC represented that interfaces used by the Advanced Services affiliates that were upgraded or replaced during the Engagement Period were also made available to CLECs and are described in the Uniform and Enhanced OSS Plan of Record that was prepared pursuant to Merger Condition 8.

Noted that the following interfaces, processes and procedures were used by the Advanced Services affiliates and were made available to all CLECs by the ILECs:

Pre-Ordering

ASI used the Verigate system in the Pacific Bell, Nevada Bell and SWBT regions for pre-ordering and obtaining access to loop make-up information from January 1, 2002 until the April 10, 2002 completion date of the Uniform and Enhanced Plan of Record, at which time, Verigate was replaced by the Enhanced Verigate system. ASI also used the application-to-application interface known as Electronic Data Interchange ("EDI")/Common Object Request Broker Administration ("CORBA") during the Engagement Period.

ASI used the EDI-MSAP application in the SNET region for pre-ordering and obtaining access to loop make-up information from January 1, 2002 until October 26, 2002, at which time EDI-MSAP was replaced by CORBA.

In the Ameritech region, AADS used Enhanced Verigate and EDI/CORBA interfaces for pre-ordering and obtaining access to loop make-up information during the Engagement Period.

Ordering and Provisioning

During the Engagement Period, the Advanced Services affiliates provisioned new orders for wholesale DSL transport using High Frequency Portion of the Loop ("HFPL") UNEs or Broadband Service. The Advanced Services affiliates provisioned Frame Relay and Asynchronous Transfer Mode ("ATM") Cell Relay services to its customers over multiple packet switches interconnected with transport facilities. When necessary, the Advanced Services affiliates obtained such transport facilities by ordering special access services from the ILECs or other local exchange carriers.

During the Engagement Period, ASI submitted orders for HFPL UNEs, Broadband Service and access services to the ILECs through the ILECs' Electronic Data Interchange ("EDI") and Network Data Mover ("NDM") interfaces. During the Engagement Period, ASI replaced a commercial service purchased from Telecordia with an internally developed application to process and transmit Local Service Requests ("LSRs") to the ILECs through EDI. ASI also submitted some LSRs, predominantly in the SWBT region, via LEX, an ILEC Graphical User Interface ("GUT") interface. In some cases, manual LSRs were also faxed into the ILECs pursuant to procedures available to all CLECs.

ASI used Network Data Mover ("NDM") as the method to electronically submit Access Service Requests ("ASRs") in ordering access services from the ILECs during the Engagement Period. In some cases, manual ASRs were faxed into the ILECs pursuant to procedures available to all CLECs.

During the Engagement Period, AADS submitted orders for UNEs (HFPL), Broadband Service and special access services from Ameritech through the ILECs' EDI and an Access Ordering GUI. AADS processed and transmitted LSRs to Ameritech through EDI. AADS also submitted LSRs via the ILEC GUI interface LEX.

For submitting ASRs, AADS utilized both the BDS Telis UNIX Ordering Database and the Access Ordering GUI made available by Ameritech.

Maintenance and Repair

During the Engagement Period, to submit trouble reports, view updates and obtain completion notifications on maintenance and repair of telecommunications services, UNEs and Broadband Services received from the ILECs, ASI used the Electronic Bonding and Electronic Bonding Trouble Admin Toolbar interfaces to connect with SWBT, Pacific Bell and Nevada Bell.

In order to submit trouble or maintenance requests to SNET, ASI called directly into SNET's center until May 2002, via a telephone number available to CLECs, at which time ASI began to use the Electronic Bonding and Electronic Bonding Trouble Admin Toolbar interfaces for DSL trouble and maintenance requests.

AADS used the Electronic Bonding Trouble Admin Toolbar interface in submitting trouble reports, reviewing updates and obtaining completion notifications on maintenance and repair of UNEs and Broadband Services received from Ameritech until May 7, 2002. Starting on May 7, 2002, AADS also began using Electronic Bonding to interface with Ameritech. If these interfaces were down or unavailable, AADS contacted the ILEC center directly, via a telephone number available to CLECs, to report trouble or request maintenance.

5. Inquired of SBC management about the functions performed by the Advanced Services affiliates with respect to processing either retail or wholesale customer service orders for Advanced Services. Noted that after receiving the service order information from the ILEC business units performing joint marketing service on behalf of the Advanced Services affiliates, the Advanced Services affiliates perform the following functions for DSL Internet transport orders and non-DSL Advanced Services orders:

- Creation of a service order.
- Identification of the Advanced Services network components, unbundled network elements, telecommunications services and work activities necessary to provision the advanced service to the customer's premises.
- Design of the customer's service.
- Assignment of Advanced Services equipment².
- Creation of the customer record, including an advanced circuit design layout record.
- Submission of the completed service order for interconnection facilities and/or telecommunications services required to provide the customer's advance service via submission of LSRs and/or ASRs to the ILECs.
- Distribution of customer premises equipment (and/or installation, if required).

Once the order is completed, the Advanced Services affiliates pass order information for interconnection facilities and/or telecommunications facilities back to Industry Markets, the ILECs business unit responsible for wholesale activity, using the same interfaces as made available to unaffiliated carriers. The specific information provided consists of the data fields contained on the LSR form used by CLECs for ordering unbundled network elements and the ASR form used by all carriers to order special access circuits from the ILECs.

SBC represented that during the Engagement Period, the following business units within the ILECs provide joint marketing activities for the Advanced Services affiliates that included taking Advanced Services orders from customers on behalf of the Advanced Services affiliates:

- Consumer Marketing Group,
- Business Communication Services,
- Global Markets, and
- Industry Markets.

Documented that ILEC joint marketing representatives are responsible for pre-qualification of availability of Advanced Services, sale of Advanced Services provided by the Advanced Services affiliates and transfer of the customers' Advanced Services orders to the Advanced Services affiliates for completion and performance of follow-up customer care services.

² "Advanced Services equipment" is defined in Condition I, Paragraph 3d of the Merger Conditions.

The ILEC joint marketing representatives provide the following information concerning a DSL Internet transport order to the Advanced Services affiliates:

- General customer information – name, address, customer contact information.
- Account information, customer premises equipment and due dates
- Theoretical/design information – overall qualification status (red, yellow, green), wire center code and design cable gauge make-up information. This information is also available to CLECs via the loop qualification process.
- Actual loop information – loop length by segment, length by gauge, 26-gauge equivalent loop length, presence of load coils, quantity of load coils, presence of bridge taps, length of bridge taps, presence of pair gain/DLC and qualification status of loop. This information is also available to CLECs via the loop qualification process.

Noted that for non-DSL Advanced Services, the ILEC joint marketing representatives pass information to the Advanced Services affiliates through use of a Common Ordering Information System (“COIS”) form. The general categories of data fields passed on the COIS form are the product and order type, general customer information (name, address, customer contact information), billing information, circuit locations, due dates, service features and options selected.

6. Obtained the total number of Advanced Services pre-order inquiries and the total number of Advanced Services facilities orders³ submitted to the ILECs by the SBC retail operations within the ILECs and the separate Advanced Services affiliates by state. SBC was unable to provide facilities order data for January through April 2002 for AADS due to system limitations in retaining aged data. SBC represented that facilities order counts for January 2002 through April 2002 were no longer available as they had aged off the system. Therefore, data for January 2002 through April 2002 were not included in these counts.

SBC represented that 100% of the pre-order inquiries and facilities orders submitted by the Advanced Services affiliates during the Engagement Period were submitted through the interfaces described in Procedure 4. above and that these interfaces were made available to CLECs.

7. No material or immaterial instances of non-compliance were noted during our performance of the Compliance Audit procedures with the local loop information provisions of Condition IV, Paragraphs 19 and 20 of the Merger Conditions.

³ SBC defined “facilities orders” as those submitted via LSRs.

8. Inquired and documented the following Operation, Installation and Maintenance ("OI&M") services were made available to unaffiliated Advanced Services providers pursuant to the Merger Conditions prior to January 9, 2002. Also documented that the ILECs continued to make available such OI&M services as of December 31, 2002:
- Operations, Installation, and Maintenance Services ("OI&M") Associated with Collocated Equipment in Physical Collocation Space – including installation, repair and maintenance of the Advanced Services affiliates equipment that is physically collocated in the ILECs' central offices. OI&M services provided also include verification and continuity testing of tie cabling, not to exceed 48 circuits per central office, monthly. Installation services provided by the ILECs are limited to installing new plug-ins, circuit packs and jumpers within the physical collocation space of the Advanced Services affiliates.
 - Connection of unbundled loops to Advanced Services equipment, as defined in the Advanced Services affiliates Interconnection Agreements with the ILECs.
 - Physical testing of circuits, as defined in the Advanced Services affiliates Interconnection Agreements with the ILECs.
9. Inquired of SBC management as to which OI&M services, at the customer premises, are provided by the ILECs for their own retail operations in each SBC state, with respect to the offering of Advanced Services. Documented that the ILECs, except for SNET, did not offer any Advanced Services during the Engagement Period and therefore have not offered any OI&M services at customer premises associated with the Advanced Services. SBC management represented that SNET did offer Advanced Services through the resale of ASI-provided services during the Engagement Period, but SNET did not provide any OI&M services at the customer premises with respect to these resold Advanced Services.
10. No material or immaterial instances of noncompliance were noted during our performance of the Compliance Audit procedures pertaining to providing OSS interfaces for provisioning Advanced Services in accordance with Condition III, Paragraph 15 of the Merger Conditions.

Paragraph 65

Obtained SBC's Annual Compliance Report dated March 15, 2002 for the year ended December 31, 2002. Noted that SBC reported no exceptions to compliance with Merger Condition I, Paragraph 13.

APPENDIX B

Definitions

Advanced Services – means intrastate or interstate wireline telecommunications services, such as ADSL, IDSL, xDSL, Frame Relay, Cell Relay and VPOP-Dial Access Service (an SBC Frame Relay-based service), that rely on packetized technology and have the capability of supporting transmission speeds of at least 56 kilobits per second in both directions. This definition of Advanced Services does not include (1) data services that are not primarily based on packetized technology, such as ISDN, (2) x.25-based and x.75-based packet technologies or (3) circuit switched services (such as circuit switched voice grade service) regardless of the technology, protocols or speeds used for the transmission of such services. (See Merger Conditions, Paragraph 2.)

Advanced Services affiliate(s) – includes any affiliate that provides Advanced Services as defined above. For the following companies, individually or collectively, the agreed-upon procedures as specified in this report were performed: Ameritech Advanced Data Services of Indiana, Inc.; Ameritech Advanced Data Services of Illinois, Inc.; Ameritech Advanced Data Services of Ohio, Inc.; Ameritech Advanced Data Services of Michigan, Inc.; Ameritech Advanced Data Services of Wisconsin Inc.; SBC Advanced Solutions, Inc.; and any other affiliate that provides Advanced Services as defined above. For Southwestern Bell Communications Services, Inc. (“SBCS”), none of the procedures specified in this audit program will be performed. Management of SBCS will execute and provide to the practitioner a management representation letter in the same format as specified in this audit program.

Affiliate – means a person that (directly or indirectly) owns or controls, is owned or controlled by or is under common ownership or control with another person. For this purpose, the term “own” means to own an equity interest (or the equivalent thereof) of more than 10 percent (Section 3 of the Communications Act of 1934, as amended).

Ameritech – means Illinois Bell Telephone Company, Indiana Bell Telephone Company, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company and Wisconsin Bell, Inc., collectively.

Engagement Period – means the period January 1, 2002 through December 31, 2002.

ILECs – means Illinois Bell Telephone Company, Indiana Bell Telephone Company, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company, Wisconsin Bell, Inc., Pacific Bell, The Southern New England Telephone Company (“SNET”), Southwestern Bell Telephone L.P. (“SWBT”), Nevada Bell and any successor or assign of such company that provides wireline telephone exchange service.

Merger Closing Date – October 8, 1999.

Merger Conditions – Appendix C of the FCC’s Order approving the SBC/Ameritech Merger – Applications of Ameritech Corp. and SBC Communications Inc. for Consent to Transfer Control of Corporations Holding Commission Licenses and Lines Pursuant to Sections 214 and 310(d) of the Communications Act and Parts 5, 22, 24, 25, 63, 90, 95 and 101 of the Commissions Rules, CC Docket No. 98-141, Memorandum Opinion and Order, 14 FCC Rcd 4761 (1999).

Obtain – When the word “obtain” was used in a procedure, the practitioner acquired and retained, in the workpapers, all documentation unless an exception is noted within this report.

Users – the users of this engagement are SBC and the FCC. The users are responsible for the nature, timing, extent and sufficiency of these procedures.